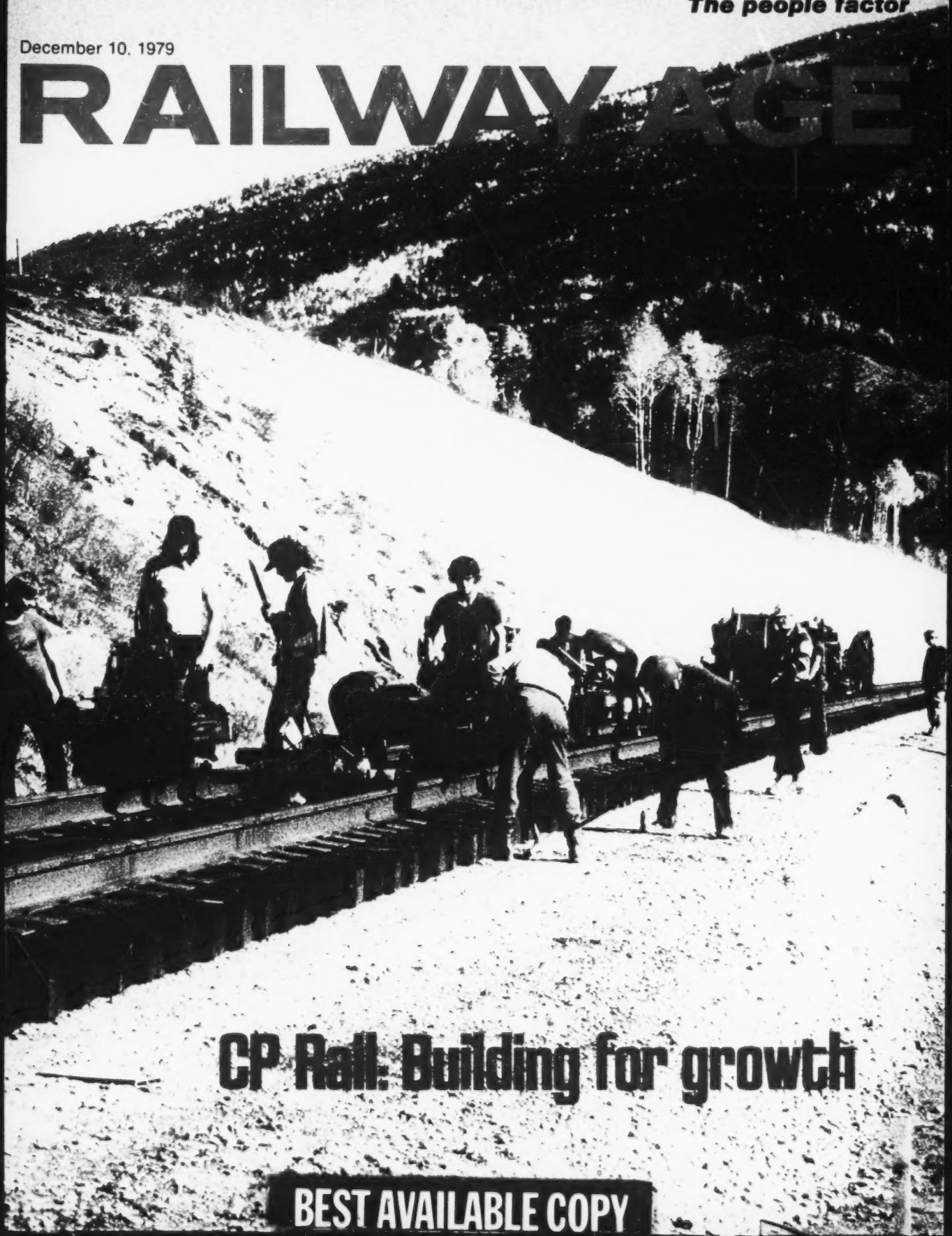
Railroading for Profit, Part VI:
The people factor

December 10, 1979

RAILWAY AGE



CP Rail: Building for growth

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RAILWAY AGE

USPS 449-130
December 10, 1979 • Vol. 180 No. 23

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Railway Age, descended from the American Railroad Journal (1832) and the Western Railroad Gazette (1856) and published under its present name since 1876, is indexed by the Business Periodicals Index and the Engineering Index Service. Name registered in U.S. Patent Office and Trade Mark Office in Canada.
Published semi-monthly by the Simmons-Boardman Publishing Corporation, 508 Birch St., Bristol, Conn. 06010.
Subscription rates to all railroad, rail rapid transit employees and industrial traffic department employees in the U.S. possessions, Canada and Mexico: $10 one year, $16 two years; all other countries $25 one year. All other subscribers in the U.S. possessions, Canada and Mexico: $19 one year; all other countries $35 one year. All subscriptions payable in advance: single copies $1 except special issues.

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POSTMASTER—SEND FORM 3576 TO P.O. BOX 530, BRISTOL, CONN. 06010
Printed at Hughes Printing Co., 34 North Crystal St., East Stroudsburg, PA. 18301. Application to mail at controlled circulation postage rate is paid at East Stroudsburg, PA., and at Bristol, CT.

Inside

LUTHER S. MILLER

MEET THE ADIRONDACK

For 103 years, *Railway Age* has been recording the births and deaths of railroads—in recent years, rather more of the latter than the former. Now, after writing the obituaries of so many roads in the East and describing what appear to be the death agonies of a couple in the Midwest, it is a refreshing change to be able to report the rebirth of a railroad. The 118-mile Adirondack Railway has risen from the grave of the old Mohawk & Malone—just in time to haul 1980 Winter Olympics visitors to Lake Placid.

The Mohawk & Malone was laid down by the Vanderbilt interests nearly 90 years ago. It subsequently became part of the Adirondack Division of the New York Central; it was abandoned by Penn Central in 1972. The State of New York was able to prevent the Penn Central from tearing up the tracks; unfortunately, it had less control over the beaver population, and when the job of rebuilding began work crews were confronted with a succession of gaping holes created by the dynamiting of beaver dams in the railroad's culverts (see photo).

But the rebuilding has now been completed, and the company that contracted with the state to do the construction job has now won a second contract to operate the line—which, its managers emphasize, is no mere tourist railway but will soon be engaged in the business of hauling freight as well as passengers. Associate Editor Tom Kizzia's report starts on p. 40.

THE PEOPLE FACTOR

Senior Editor Gus Welty's year-long series of articles on "Railroading for Profit" has so far covered track, equipment, operations, marketing, and purchasing; in those stories we have tried to synthesize the best available thinking on what can and must be done to make the entire industry as healthy as certain segments of it, in the West and the South, already are. The concluding installment, in this issue, tackles the most important and the most difficult and elusive subject of all—the people factor. "The people," in Gus Welty's broad context, are not only the railway managers and employees, though they must bear the preeminent responsibility. The people who will determine the future of railroading are also those in government, and their constituents back home. The role of all of these in "making it work" is discussed in the article starting on p. 24.

RAILWAY AGE

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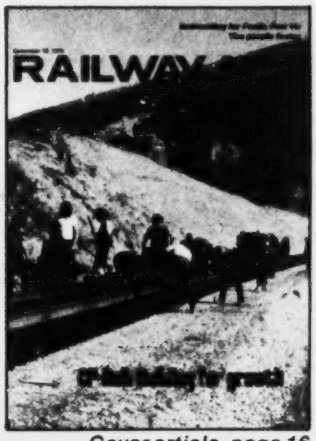

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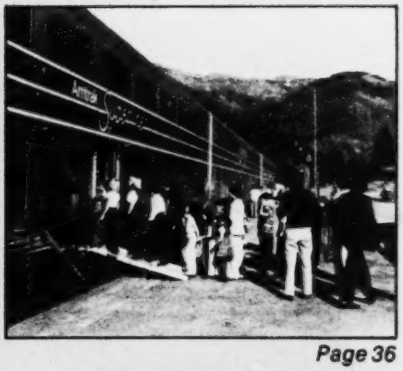

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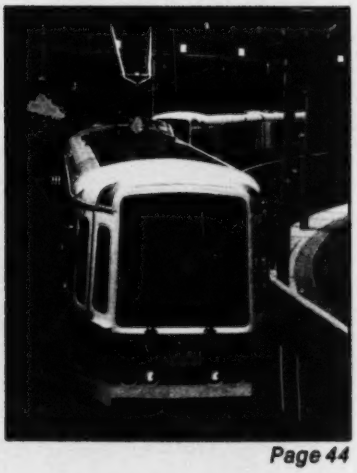

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LAST IN A SERIES

Railroading for Profit

The people factor

By GUS WELTY, Senior Editor

Earlier in this series, industry experts and observers, insiders and outsiders, have talked in frank and free-wheeling fashion about railroad problems, railroad needs, and railroad opportunities in many areas.

They have talked about the rail "road" itself, and about the power and the freight-carrying equipment that roll along this steel highway. They have talked about the railroad "product" and about the ways in which it is marketed.

In all of these discussions, the bottom line has been the bottom line—and the contributions to profitability that can and must be made by plant, by equipment, by operations, and by marketing.

What remains? What remains may be the biggest of all contributors to—and/or detractors from—profitability: people, people defined here as (1) railroad management, (2) rail employees and their organizations, and (3) everybody else, including government and the populace to which it is presumably responsible.

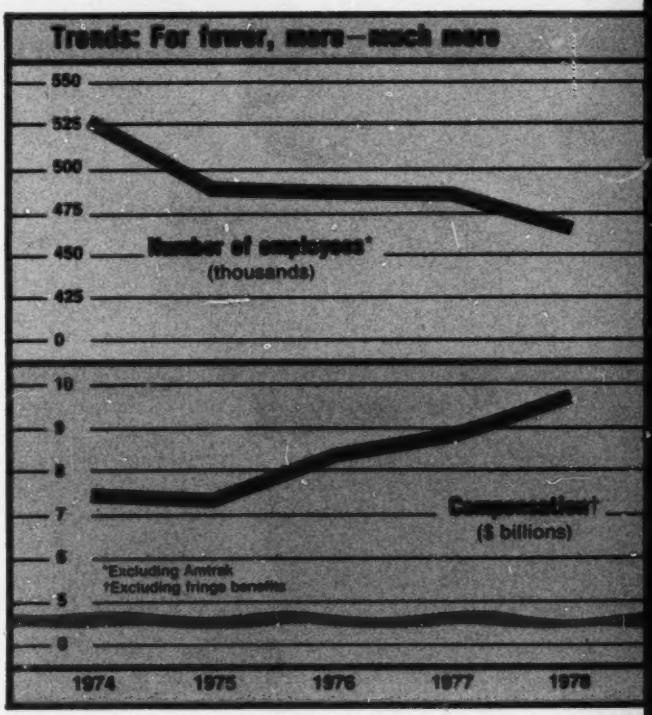
First, management. Not surprisingly, assessments of present day railroad managers vary. At one extreme is the critic who grumbles that the men who run the railroads could never have built them. At the other extreme is the defender who argues that with all the externally imposed handicaps railroads have had to face, they would not have survived this long were management not the equal of any in American industry.

Also not surprisingly, an accurate assessment lies somewhere between the extremes, in a band of the spectrum that can accommodate both the acceptance of history and the ability to break loose from its grip.

Critics of management structure and strategy most often seem to concentrate on two main points, (1) the quasimilitary nature of management organization, and (2) the imbalance of power between those who manufacture the product and those who have to sell it. On both points, the critics have a point—up to a point.

Military organization? Yes, railroads have it. For one thing, military men had a lot to do with the building of the railroads, and it was only natural that they would structure them along the lines of the environment they knew best. For another, however, given the far-flung nature of railroad operations and the need for staff support of line operations, it is not easy to come up with an organization chart that does not look much like one that would be put together for an army.

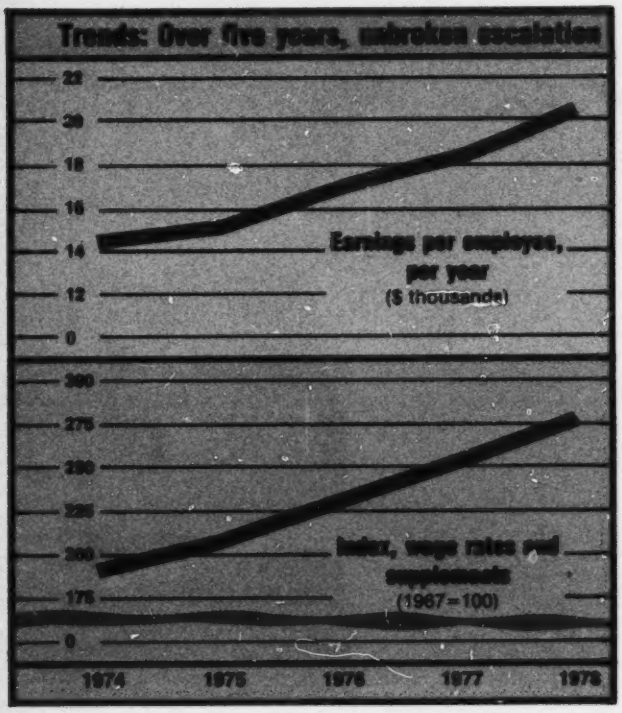
To their credit, many roads have tried to tinker with

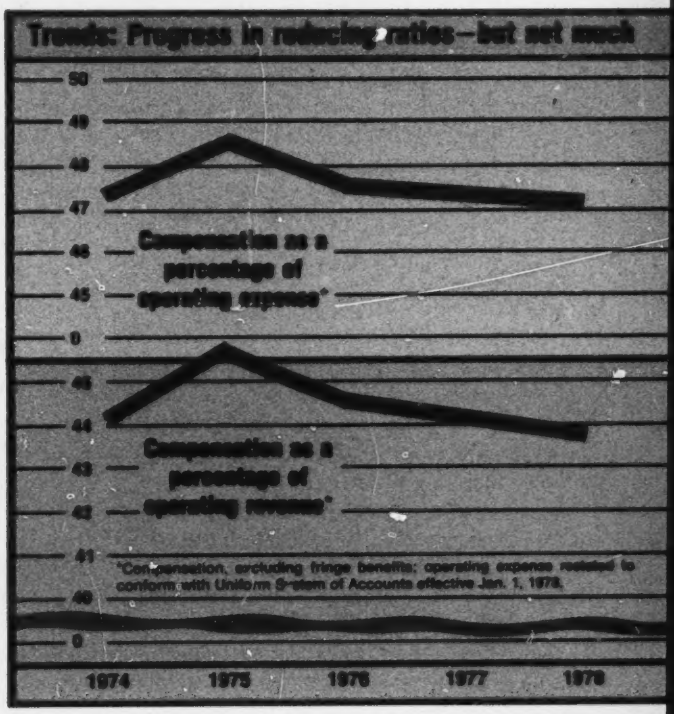


structure, trying to find the right balance between centralization and decentralization, trying to put decision-making power at the right level for whatever decision it is that has to be made. Still, the old story is occasionally told, about the supervisor who, having been struck by a locomotive, had to call headquarters for permission to die. In a more serious vein, debate continues as to the proper level for decision-making with regard to those most basic of railroad operations, classifying cars and dispatching trains.

To their credit, too, more and more railroads have been trying to overcome another handicap associated with a military-type organization, the lack of two-way communication. Traditionally, on a railroad as in an army, "communication" has come from the top down, and only recently has even this one-way communication been broadened to go beyond the directional to the informational. Now, however, railroads seem to be encouraging middle- and lower-level managers not only to develop ideas but also to pass them upward—though even here

"The biggest contributors to—and/or detractors from—profitability are people—management, labor, government, and the public"





there may be a gap, and a strange one at that: More and more, front-line supervisors are being told to solicit and respond to suggestions from contract employees—even as those same supervisors continue to wonder if managers above them are giving the same attention to their ideas as the supervisors are supposed to be giving to ideas that come off the trains or out of the shops.

Then, there is that nagging question regarding management power and who has it, the question dealing with production vs sales. Again, blame history for creating the problem: The early railroads were so far superior to anything else that existed then that they didn't really have to "sell," and their superiority continued for so long that when it finally came to an end even those who recognized the end didn't know what to do about it.

Monopoly, or even assured dominance, ended for railroads in the years after World War II—but the end was masked by the prosperity that came during those postwar years. Monopoly, assured dominance, ended (for passenger service) when aircraft manufacturers put to work in peacetime what government had helped them learn in wartime, and it ended (for both freight and passenger service) when government determined that there should be a new "Interstate" system of highways. The first cubic yard of concrete to be poured for the first Interstate was, in effect, the first nail driven into a coffin lid that railroads have been trying to get out from under ever since.

Railroads haven't made it yet, not entirely—and one reason is that railroads, for whatever reason, still seem too much to be trying to sell the available product rather than the one the "consumer," the shipper, wants to buy and needs to buy. Put another way, early-on railroad efforts at "marketing" (with only an exception or two) appeared to be more cosmetic than real. In too many cases, current marketing efforts continue to fall short. Why? Perhaps because top management is still too much production oriented, perhaps because marketing management is not yet able to prove enough winners to offset its occasional loser. Perhaps, too, because some marketable

products will cost too much for the price that can be charged—and perhaps government won't let market forces work freely.

Costs? In the railroad business, costs mean many things: cost of equipment, for example, cost of new or rehabilitated plant, cost of labor.

Labor costs in any so-called service industry run high. But railroading is a product-service industry, an industry that is both capital intensive and labor intensive; its labor costs per unit of output can run high—with a Conrail more than offsetting a Florida East Coast and with other roads falling somewhere in between those extremes of high and low.

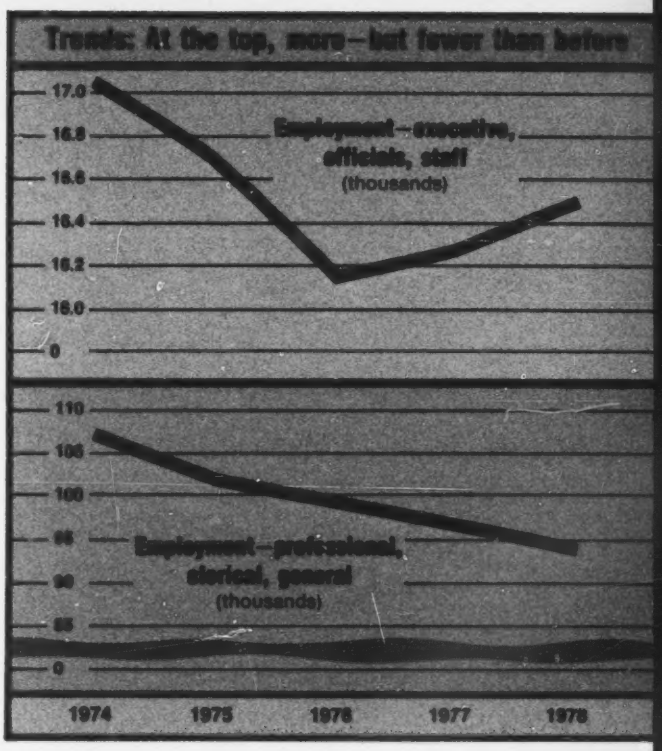
One problem here is that costs interfere too much with the levels, and even the kinds, of service that can be provided. A corollary to that problem is that some roads are more handicapped than others in tailoring service to demand. And a subcorollary is that roads most in need of the ability to tailor service sometimes seem least able to provide it because of union recalcitrance.

By "standard" kinds of productivity measures, rail unions can point with pride; with far fewer employees, railroads are producing far more ton-miles of transportation production than before. There are some in management who would accept this measure—even while they try to point out that most of these improvements in "productivity" are due more to capital infusions than they are to actual increases in labor's productivity.

The heart of the problem, however, has to do with restrictions on operating flexibility, on the ability of a railroad to provide service always on a when-needed, as-needed basis at a reasonable cost. Railroads, hit on one side by law and on another by labor agreements, have problems doing that—and they're going to continue to have these problems unless and until rail labor organizations wake up.

Is rail labor going to awaken? The answer to that one is, as yet, far from clear. On the local level, on a few roads and perhaps more than a few, the rank and file and union leadership seem amenable to change, and change has happened. But local union leaders have their own set of problems. For one, if they agree to change, they have to sell it to the membership on the property—and it had better pay off or, come election day, somebody else is going to become general chairman. For another, they have to sell it to union headquarters—where the big people have the best of worlds, talking about democracy, telling management that they can't agree to anything the local troops won't accept, and then pressuring the local people when they do go along with an idea that headquarters isn't ready or willing to accept. It is not exactly democracy, but it is about all that union hierarchy can accept, blind though it may be.

In view of the problems railroads are facing today—in view of declining traffic (as measured by originated tonnage), in view of declining employment (which continues), in view of declines in union membership (which also continue in a number of organizations)—it might be

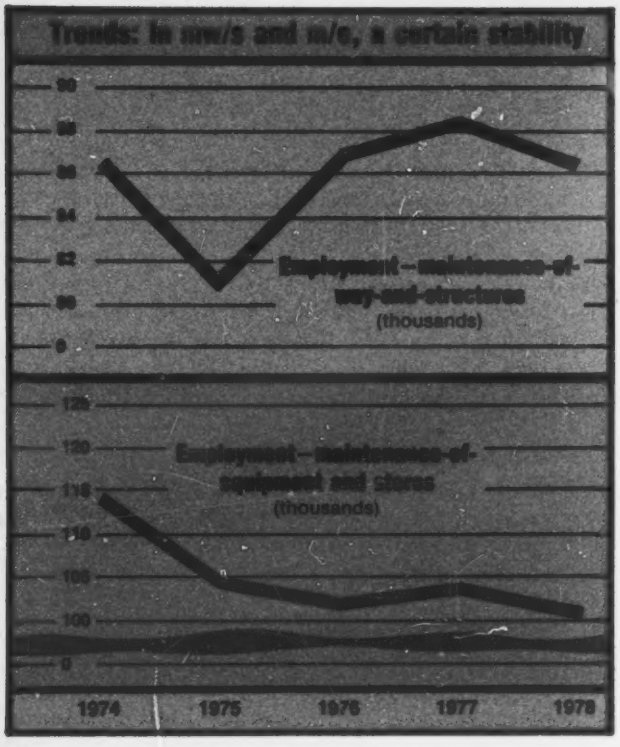


thought that rail unions would be closing ranks with each other and closing ranks with rail management in order to present some sort of united front to the government, to customers, to the world.

But it doesn't really happen: Rail labor, fragmented as it is, appears to know little except its own thing, which is self-preservation—even as it drives down the industry upon which it depends for that preservation.

Evidence? For one thing, as soon as rail management served notice in the most recent round of negotiations that it wanted change in work rules, rail labor pulled out of cooperative management-labor-government programs that had done quite a bit to improve service and thus give promise of attracting more business, while these same programs had done absolutely nothing to penalize operating employees. Labor has since come back into such programs, quietly, at the local level, but the other participants have had to virtually beg for labor's participation at higher levels.

More evidence? It was one thing for the Brotherhood of Railway and Airline Clerks to strike Norfolk & Western last year, but it was quite another for the same union (followed, a day later, by the United Transportation Union) to hit Rock Island this year. NW was, by comparison with RI, rich; it had supervisory resources, and it was well on its way to giving BRAC a licking when government stepped in, declared that an emergency existed, and created an emergency board that wound up with recommendations both sides finally accepted. The Rock, on the other hand, was already in bankruptcy, lacked enough supervisory resources to do an NW-type job, and



finally got put out of business by the federal government, which declared unilaterally that RI couldn't make it and put a directed-service carrier in business to run RI even as it ignored the Railway Labor Act in order to get the strikers to go back to work. In both cases, government, as not unusual, turned its back on mangement and its front toward labor.

Rail labor, it now appears, will give up little or nothing —it will give up a little if it gets a lot, as witness the Milwaukee and Conrail crew consist agreements—even if the industry itself is at stake. Labor, apparently, believes that since railroads are essential, if private enterprise railroads can't make it, then government will make sure that some sort of railroads do make it—with the kind of protection government has always given to labor, as in the case of railroad mergers.

Rail labor, perhaps, should take another look: Despite its bailout of BRAC in the NW strike and despite its destruction of RI, government will not forever be beholden to rail labor—not when government finally wakes up to the facts that (1) privately operated railroads are, in fact, essential if the freight is going to move, and (2) rail labor makes more noise than it has votes (an observation that is as pragmatic as it is cynical).

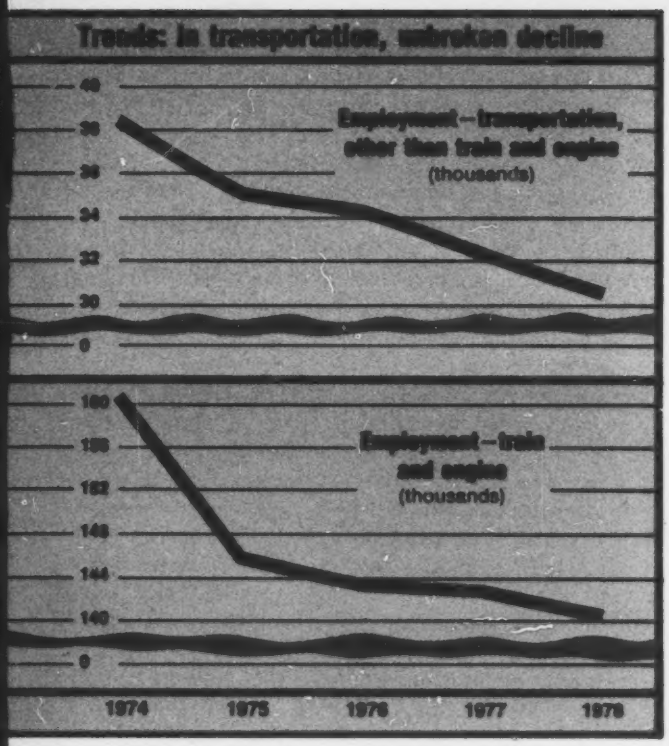
What government intends to do in a broad sense, however, almost defies forecast. If money is the gauge—if federal aid is the gauge—then freight railroading comes in last on government's scale of interest. Earlier this year, the United States Conference of Mayors released an analysis of government financial obligations by transportation mode—and the arithmetic was sobering. For example, in looking at federal obligations just since World War II, the conference came up with these numbers: highways, $102.8 billion; air transportation, $30.6 billion; domestic water transportation, $13.3 billion; ocean shipping, $7.4 billion; and mass transit, $13.3 billion.

What did the analysts add up in federal aid to the rail mode? $5.9 billion, a dead-last number that doesn't even look that good if grants for Amtrak ($2.5 billion) and government financed investment in Conrail ($1.9 billion) are dropped from the total. Rail transportation obligations have, in fact, been increasing—but so have obligations for other modes. In FY 1978, for instance, the conference found rail mode obligations of $1.7 billion, compared with more than $2.8 billion for air transportation and more than $7.2 billion for highway transportation; perhaps ironically, the analysts' number for all aid to rail, pre- and post-World War II, was less than the 1978 outlay alone for highway.

Money, however, may not be everything. Earlier in this decade, the no-longer ignorable losses being piled up by rail passenger operations and the collapse of Penn Central laid a two-by-four alongside government's head, and government demonstrated that it could indeed act, once its attention had been attracted. Thus, Amtrak was created and Conrail was created, and there came to pass the Railroad Revitalization and Regulatory Reform Act of 1976, and both the Administration and the Congress continued to look at deregulation.

In all cases, most observers would probably agree, the intentions were good—but people got in the way. Amtrak was politicized, with trains running for no economic reason. Unions and union members were protected far more than were stockholders when Conrail burst forth, surrounded by the optimistic projections—overly optimistic, as it turned out—as to what CR would be able to accomplish in its first years. The 4R Act? It ranked along with the Railway Labor Act as the most important rail legislation passed in 50 years (and it *was* just 50 years, 1926 for the RLA and '76 for 4R). It gave railroads rate flexibility in a number of areas, while it set up financial aid machinery and it put limits on the time the Interstate Commerce Commission could agonize over merger and consolidation proposals. So what happened? Railroads and the ICC got locked into a dispute over what constituted "market dominance" so far as rate-making was concerned, and while that hassle went on, most of the other "flexibility" provisions went ignored. Financial assistance, in the form of loan guarantees and preference-share financing, was doled out slowly, in dribbles, with some applicant (or supplicant) roads making out quite a bit better than others. And while the ICC moved expeditiously through the hearing stages on several consolidation proposals, toward the end of 1979 there were a few disquieting signals being received as to whether the commission really knew its own mind well enough to make decisions.

Deregulation? That was a topic that both the industry



and government continued to debate, with railroads reaching some measure of consensus and with government, maybe, realizing that "deregulation" of an industry as complex as the railroad industry would not be so simple as was deregulation of airlines (a legislative move that has yet to prove itself more constructive than destructive).

The thread that runs through all of these considerations of railroads, of rail labor, of government is people.

Management's act is not yet all together; labor's is far from it; and government remains an enigma.

Management has opportunities which can be taken advantage of—better on some roads, certainly, than on others. One of those opportunities has to do with the development of succession, through increased investment in training, identifying, and advancing those who will be tomorrow's managers, and in recruiting on a consistent basis. Another has to do with improving the listening process, which means opening up a true two-way street for communications. Yet a third has to do with development of a basic consensus on public issues, not an easy thing in view of the differences among railroads and their needs, but a thing that seems to be required where the public and government are concerned.

Labor? A half-million individuals, more or less, still work for railroads, and most of those individuals retain a pride in what they do. Those who have gone out and sampled rank and file opinion say that they have found it a lot more encouraging, where change is concerned, than what they find when the opinions of top union leaders are sampled. That makes it appear as though change won't happen unless it's a bottoms-up kind of thing, and if this is true then it's unfortunate, because union "democracy" only goes so far, and there is no evidence that it goes far enough to allow individual employee thinking to overrule headquarters' concerns. As for union leadership, optimistic observers have been burned before in thinking that (1) new leaders, or (2) leaders in a final-term position will show the daring which will allow significant change in old, old positions. What has happened, unfortunately for the industry and probably for the organization, is that the new leader has to prove himself and the old one wants to go out a hero. The industry may suffer, the rank and file may suffer, but that's the way it is, and there are few if any signs that the situation will change; if anything, the militancy of BRAC—and the response that UTU will probably feel obliged to make, as the other "big" union —could lead to the conclusion that labor's positions vis-a-vis the health and even the survival of the industry will become more and not less difficult to deal with.

Interestingly, however, a breakdown of employment figures for the mid-to-late-1970s shows little "reward" for those who have been and continue to be the most militant. Over the past several years, employment in both maintenance-of-way-and-structures and maintenance-of-equipment has more or less been stabilized, as railroads with effective maintenance progams kept them up to snuff and roads which had allowed maintenance to slip began to do something about it. Employment in train-and-engine service and in the professional, clerical, general category, however, shows something different—decline in employment, perhaps not precipitate but steady, for every year from 1974 through 1978. There is, of course, no direct cause-effect relationship here—but, at the same time, these numbers (and many others relating to the overall wellbeing of the industry) ought to provide sufficient cause for labor's leaders, at least some of them, to rethink the course they have charted.

Government may have its own thing to prove, before it's too late. Here the main hope may lie with the Congress, perhaps with the help of the courts, in overcoming a bureaucracy that is entrenched and that, increasingly, regards itself as a law unto itself. But, as with rail management and as with rail employees and their organizations, government—each branch of it—does not speak with one voice. Government, in this context the Congress, will have to recognize at some point soon that the nation's freight railroads are a resource that cannot be done without—and at that point, Congress will have to make it clear to the bureaucracy, notably the ICC and the Federal Railroad Administration, that the national interest demands more than it's getting.

The mandate, for all concerned, is not all that unclear.

The railroad role has been reduced, true, thanks to a lot of circumstances, among them management inertia, labor intransigence, and government ignorance—all of which have translated into improvements in competitors' competitive positions. But is the trend irreversible? No—or for the good of the country, it had better not be. ■

Market

CARLOADINGS

Loadings of revenue freight in the week ended Nov. 17 totaled 464,592 cars, according to the Association of American Railroads. This was a decrease of 30,693 cars, or 6.2%, compared with the corresponding week last year. Ton-miles generated by carloadings in the week ended Nov. 17 are estimated at 17.6 billion, a decrease of 2.7% below the corresponding week of 1978.

REVENUE FREIGHT CARLOADINGS

Commodity	Nov. 17 week	Nov. 10 week
Grain	32,093	33,405
Farm products	6,442	6,478
Metallic ores	30,678	31,494
Coal	107,829	113,862
Crushed stone, gravel & sand	16,734	17,326
Nonmetallic minerals	14,806	15,824
Grain mill products	18,692	19,055
Food and kindred products	18,657	18,869
Primary forest products	21,013	21,380
Lumber & wood products (except furniture)	10,518	10,541
Pulp, paper & allied products	21,478	21,100
Chemicals & allied products	27,768	28,482
Petroleum products	5,708	6,051
Stone, clay & glass products	17,556	17,975
Coke	5,978	6,013
Metals & products	17,179	17,602
Motor vehicles & equipment	19,965	21,761
Waste & scrap materials	13,877	13,959
Forwarder & shipper assn. traffic	12,504	12,482
All other carloads	44,734	45,717
LCL traffic	383	365
Total cars loaded	**464,592**	**479,741**
Cumulative total,	**1979**	**1978**
46 weeks	21,310,744	20,718,045
Estimated revenue ton-miles (billions)		
46 weeks	798.2	759.4

PIGGYBACK LOADINGS

U.S. piggyback loadings for the week ended Nov. 10 totaled 36,746 cars (2.5% below the corresponding 1978 week) and 63,918 trailers or containers (down 2.3% from 1978). Cumulative volume for the first 45 weeks of 1979 is 1,624,207 cars (up 1.7% from 1978) and 2,867,268 trailers or containers (up 3.9% from 1978).

CANADIAN CARLOADINGS

Canadian railway revenue freight loaded in the ten-day period ended Oct. 31 totaled 7.8 million tons (up 7.1% from 1978). Cars loaded totaled 115,577 (up 5.0% from 1978). Cumulative loadings for 1979 were up to 219.9 million tons (up 10.4% from 1978).

● *British Columbia Railway.*—Ordered 10 diesel-electric locomotives from General Motors Diesel at a cost of approximately $10 million.

● *CP Rail.*—Ordered 325 89-foot flatcars from Marine Industries at a cost of approximately $18 million, and 400 44-foot 3-inch containers and 150 highway chassis from Highway Trailers of Canada Ltd. at a cost of $6 million. CP Rail will use the equipment to expand its domestic containerization services.

● *Massachusetts Bay Transportation Authority.*—Is seeking a $41,480,000 capital grant from UMTA to help pay for the rebuilding of 93 Budd rail diesel cars. Originally built in 1952-1958, the RDCs would be remanufactured as locomotive-hauled all-electric coaches. They would replace 56 coaches being leased from Toronto until May 1981.

● *New Jersey DOT.*—Has requested bids for the supply of 57 cars (44 midtrain and 13 cab-control) and 10 locomotives for use on the Raritan Valley Line. The purchases are made possible by a grant from UMTA. The locomotive bids are due Jan. 24, 1980; the car bids, Feb. 7, 1980. The bid advertisement includes an option for construction of diesel equipment for use on the nonelectrified portion of the North Jersey Coast Line. The option covers 6 to 9 cab cars, 39 to 49 trailer cars, and 7 locomotives for which funding has been requested from UMTA.

● *Niagara Frontier Transportation Authority.*—NFTA, which will initially require 30 light rail vehicles for the 6.4-mile Buffalo light rail rapid transit line, is seeking proposals from manufacturers. A contract is to be awarded in late summer 1980, with delivery due to begin in late 1982. NFTA is using what it calls the "Two-Step Formal Advertising" procedure, which Kenneth G. Knight, general manager of the Metro Construction Division, explains this way: "The carbuilders will be asked to offer vehicles from their production designs, appropriately modified to meet our essential requirements. The first step of this process will be to solicit technical bids, through a formal request for a technical proposal. This details the required work in terms of performance specifications. Prospective contractors will tell us how they propose to accomplish the work, but will make no reference to cost or pricing." In the second stage, contractors who have submitted acceptable proposals will compete for the contract on the basis of price.

● *Southern Pacific.*—A $900,000, computer based ctc system, which will control two portions of line totaling 150 miles in Texas, is being delivered to SP this month by TRW Controls Corp. It will become operational in January. Hardware includes one operator console with three color CRTs, 16 TRW ALERT-I remote terminal units, one communications interface, and two loggers. Two similar systems previously supplied by TRW control 650 miles of line.